



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

October 13, 2004

Dr. Jane I. Henderson, Ph.D., Executive Director  
California Children and Families Commission  
501 J Street, Suite 530  
Sacramento, CA 95814

Dear Dr. Henderson:

**Final Audit Report on the Children and Families Trust Fund and Related Accounts**

Enclosed is the audit report on our financial audit of the Children and Families Trust Fund and related accounts, for the fiscal year ended June 30, 2004. Our audit was performed under interagency agreement number CCFC-6960, between the California Children and Families Commission and the California Department of Finance.

The enclosed report is for your information and use. Because the enclosed report contains no findings, a draft report was not issued.

If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Marty Rubio, Supervisor, at (916) 322-2985.

Sincerely,

Samuel E. Hull, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Mr. Joseph Munso, Chief Deputy Director, California Children and Families Commission  
(CCFC)  
Mr. Bryan Hobson, Chief, Administrative Division, CCFC

# A F<sub>INANCIAL</sub> S<sub>TATEMENT</sub> A<sub>UDIT</sub>

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## California Children and Families Commission Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2004

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, performed this audit under Health and Safety Code, section 130150. The purpose was to audit the *Balance Sheet* and *Statement of Operations* of the Children and Families Trust Fund and related accounts (Fund), for the fiscal year ended June 30, 2004.

The financial audit objectives were to:

- Express an opinion on the financial statements based on our audit, conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- Verify that the financial statements were prepared in conformity with the accounting practices as prescribed by the State of California, which is a comprehensive basis of accounting other than generally accepted accounting principles.
- As necessary, report on internal control over financial reporting weaknesses, as well as noncompliance with applicable laws and regulations.

This report is intended solely for the information and use of the California Children and Families Commission and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited. Requests for copies should be made to the California Children and Families Commission.

## **STAFF:**

Frances Parmelee, CPA  
Manager

Martha Rubio, CPA  
Supervisor

Robert Scott  
Kweku Atta-Mensah  
Dennis Solheim



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## INDEPENDENT AUDITOR'S REPORT

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Dr. Jane I. Henderson, Ph.D., Executive Director  
California Children and Families Commission  
501 J Street, Suite 530  
Sacramento, CA 95814

We have audited the accompanying *Balance Sheet* as of June 30, 2004, and the related *Statement of Operations* of the Children and Families Trust Fund and related accounts (Fund), for the fiscal year then ended. These financial statements are the responsibility of the California Children and Families Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by GAS Statement No. 3. Both the audited entity and the Department of Finance, of which the Office of State Audits and Evaluations is a unit, are part of the State of California's Executive Branch, which GAS considers an impairment of independence. Also, as required by various statutes within the California Government Code, the Department of Finance's other units are mandated to perform certain management and accounting functions. These activities impair independence. Although the Department of Finance is statutorily obligated to perform these specific activities, we believe that sufficient safeguards and divisions of responsibility exist that would enable the reader of this report to rely on the information contained therein.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Fund as of June 30, 2004, and the results of the Commission's operations for the fiscal year then ended, in conformity with the basis of accounting described in Note 2 to the financial statements.

The Commission previously presented encumbrance balances as accounts payable and expenditures. However, the financial statements contained herein are presented to show encumbrances as a reserve within fund balance. This change in financial statement presentation affects the comparability of the financial statements with those of the preceding period. The change in presentation requires restating beginning fund balances for the

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encumbrances reported as expenditures in the prior year. As a result, the restated beginning fund balances at July 1, 2003, are greater than the audited ending fund balances at June 30, 2003, for the encumbrances amounts.

## **Compliance**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Commission and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



Samuel E. Hull, CPA  
Chief, Office of State Audits and Evaluations  
(916) 322-2985

October 4, 2004

# BALANCE SHEET

## California Children and Families Commission Balance Sheet At June 30, 2004

	Children and Families Trust Fund (0623)	Counties Children and Families Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
<b>Assets</b>								
Cash	\$ 27,301,868	\$ 376	\$ 17,009	\$ 5,437	\$ 934	\$ 13	\$ 48,244	\$ 335
Deposits in SMIF	24,913,000	11,272,000	33,815,000	90,851,000	57,509,000	68,590,000	17,101,000	30,433,000
Receivables	39,433,113	0	0	0	0	0	0	0
Due from Other Funds	124,142	73,492,414	5,620,066	4,922,269	2,974,129	3,000,909	978,119	2,117,776
Due from Other Governments	0	0	0	0	0	0	0	0
Advances and Loans Receivable	0	0	0	0	0	0	473	0
Prepaid Expense	0	0	1,283,000	842,000	0	0	799,000	0
<b>Total Assets</b>	<b>\$ 91,772,123</b>	<b>\$ 84,764,790</b>	<b>\$ 40,735,075</b>	<b>\$ 96,620,706</b>	<b>\$ 60,484,063</b>	<b>\$ 71,590,922</b>	<b>\$ 18,926,836</b>	<b>\$ 32,551,111</b>
<b>Liabilities</b>								
Accounts Payables	\$ 0	\$ 0	\$ 2,348,683	\$ 748,806	\$ 0	\$ 452,605	\$ 52,133	\$ 988,759
Due to Other Funds	91,772,123	0	30,000	2,117,006	606,842	514,727	36,282	2,124,499
Due to Other Governments	0	76,254,015	0	1,300,000	0	0	0	121,094
<b>Total Liabilities</b>	<b>91,772,123</b>	<b>76,254,015</b>	<b>2,378,683</b>	<b>4,165,812</b>	<b>606,842</b>	<b>967,332</b>	<b>88,415</b>	<b>3,234,352</b>
<b>Fund Balance</b>								
Reserved for Encumbrances	0	8,510,775	23,585,826	43,745,614	28,633,567	33,853,251	28,759	18,124,834
Reserved for Unencumbered Balances of Continuing Appropriations	0	0	14,770,566	48,709,280	31,243,654	36,770,339	18,809,662	11,191,925
<b>Total Fund Balance (Deficit)</b>	<b>0</b>	<b>8,510,775</b>	<b>38,356,392</b>	<b>92,454,894</b>	<b>59,877,221</b>	<b>70,623,590</b>	<b>18,838,421</b>	<b>29,316,759</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 91,772,123</b>	<b>\$ 84,764,790</b>	<b>\$ 40,735,075</b>	<b>\$ 96,620,706</b>	<b>\$ 60,484,063</b>	<b>\$ 71,590,922</b>	<b>\$ 18,926,836</b>	<b>\$ 32,551,111</b>

The accompanying notes are an integral part of the financial statements.

# STATEMENT OF OPERATIONS

## California Children and Families Commission Statement of Operations For the Fiscal Year Ended June 30, 2004

	Children and Families Trust Fund (0623)	Counties Children and Families Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
<b>Fund Balance July 1, 2003</b>	\$ 0	\$ 82,692,193	\$ 18,953,133	\$ 29,655,730	\$ 21,454,595	\$ 29,357,795	\$ 16,646,600	\$ 9,299,719
Accrued Encumbrances	0	0	30,094,973	65,691,549	40,653,083	41,037,486	48,930	25,631,607
<b>Restated Fund Balance July 1, 2003</b>	\$ 0	\$ 82,692,193	\$ 49,048,106	\$ 95,347,279	\$ 62,107,678	\$ 70,395,281	\$ 16,695,530	\$ 34,931,326
<b>Additions</b>								
Cigarette Tax Revenue	595,779,316	0	0	0	0	0	0	0
SMIF Interest Revenue	547,715	511,881	618,458	1,438,161	920,822	1,065,397	245,636	463,558
Transfers from Other Funds	0	457,787,372	34,334,053	28,623,829	17,167,026	17,167,026	5,722,342	11,444,684
<b>Total Additions</b>	596,327,031	458,299,253	34,952,511	30,061,990	18,087,848	18,232,423	5,967,978	11,908,242
<b>Deductions</b>								
Appropriation Expenditures	2,392,816	532,480,671	45,644,225	32,954,375	20,318,305	18,004,114	3,825,087	17,522,809
Transfers to Other Funds	593,934,215	0	0	0	0	0	0	0
<b>Total Deductions</b>	596,327,031	532,480,671	45,644,225	32,954,375	20,318,305	18,004,114	3,825,087	17,522,809
<b>Fund Balance June 30, 2004</b>	\$ 0	\$ 8,510,775	\$ 38,356,392	\$ 92,454,894	\$ 59,877,221	\$ 70,623,590	\$ 18,838,421	\$ 29,316,759

The accompanying notes are an integral part of the financial statements.



# NOTES TO FINANCIAL STATEMENTS

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## **California Children and Families Commission Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2004**

### **NOTE 1      Definition of Reporting Entity**

The Children and Families Trust Fund (Fund 0623) and its related accounts was created by the California Children and Families Act of 1998 (Act). Subsequent to the Act, legislation passed that provided for the Children and Families Commission to be known as "First 5 California." The Act is intended to promote, support, and improve the early development of children from the prenatal stage to five years of age. The programs authorized by this Act are administered by the California Children and Families Commission (Commission) and by county Children and Families Commissions.

Effective January 1, 1999, section 30131.2 of the Revenue and Taxation Code authorized the State Board of Equalization (Board) to collect 87 cents for each cigarette pack distributed and a surtax on other tobacco products. Of the 87 cents collected, 50 cents is allocated and deposited into the Fund.

Fund 0623 was established to provide funding for research and development, education, training, and other functions specified in the Act. However, it primarily functions as a pass-through account with monies used to pay Board administrative costs and to transfer the remaining amount to its related accounts according to allocation percentages established by the Act. The county commissions receive 80 percent of the funding and the Commission receives 20 percent, which is allocated to six separate accounts, as illustrated in the following table.

Fund/Account	Tax Revenue Allocation	Fund Purpose
Counties Children and Families Account (0585)	80%	This account is established for the 80 percent of the funds received in the California Children and Families Trust Fund (0623) to be allocated and appropriated to county commissions and expended for the purposes authorized in accordance with each county's strategic plan.
Mass Media Communications Account (0631)	6%	To provide funding for communications to the general public utilizing television, radio, newspapers, and other mass media furthering the goals and purposes specified in the <i>California Children and Families Act of 1998</i> .
Education Account (0634)	5%	To provide funding for education goals and purposes as specified in the <i>California Children and Families Act of 1998</i> .
Child Care Account (0636)	3%	To provide funding for child care goals and purposes as specified in the <i>California Children and Families Act of 1998</i> .
Research and Development Account (0637)	3%	To provide funding for research and development goals and purposes as specified in the <i>California Children and Families Act of 1998</i> .
Administration Account (0638)	1%	To provide funding for administrative costs and other purposes as specified in the <i>California Children and Families Act of 1998</i> .
Unallocated Account (0639)	2%	To provide funding for any other purposes of the <i>California Children and Families Act of 1998</i> , except that no expenditures for administrative costs may be made from this account.

Each county commission receives a portion of the monies equal to the percentage of the number of live births recorded in the relevant county (for the most recent reporting period) in proportion to the entire number of live births recorded in California (for the same period). Vital statistics compiled by the Department of Health Services are used. All fund expenditures must be incurred in accordance with the provisions of the Health and Safety Code, section 130105 (d).

## NOTE 2      **Summary of Significant Accounting Policies**

### a. Basis of Presentation

The Children and Families Trust Fund (Fund) and related fund accounts are classified as *Other Governmental Cost Funds* for State of California financial reporting purposes. *Other Governmental Cost Funds* are special revenue funds used to account for revenues restricted by law for specified purposes.

b. Measurement Focus and Basis of Accounting

The accounting method used for the Fund's financial accounting and reporting purposes is in compliance with the accounting policies and procedures prescribed by the California State Administrative Manual and the California Government Code, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). This method is consistent with the modified accrual basis of accounting, whereby revenues are recorded when they become measurable and available, and expenditures are recorded when the related liability is incurred.

c. Revenue

Revenues consist of the cigarette taxes collected on sales of cigarette packs and other tobacco products, interest income earned on funds deposited in the Surplus Money Investment Fund (SMIF), and unclaimed checks escheated to the issuing fund.

d. Expenditures

Expenditures are recognized when the related liability is incurred or when monies are transferred to the State Payroll Revolving Fund for the payment of salaries, wages, and benefits.

e. Cash and Pooled Investments

Cash is deposited in the State's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. Idle Fund cash is invested in the State's SMIF (a pooled investment account), which is managed by the Pooled Money Investment Board. Each fund whose monies are deposited in this pooled investment account has an equity share in the balance, with investment income allocated to participants based on relative equity at month end.

f. Due To/From Other Funds

The "Due to Other Funds" account for Fund 0623 represents the cigarette tax revenues due to the other seven related accounts as described in Note 1. Additionally, the "Due to Other Funds" account for the other six accounts represents allocations due to the Unallocated Fund 0639 for the School Readiness Program administered by the Commission. Under this Program, the Commission distributes funds to eligible counties, in addition to the required 80 percent allocation of cigarette taxes as provided in Note 1, to assist with the development of children ages zero through five to ready them for school.

The "Due from Other Funds" account represents the amounts due from the Children and Families Trust Fund (Fund 0623) for the cigarette tax revenue allocations and SMIF interest.

g. Interfund Transfers

Legally authorized transfers between State funds are reported on the *Statement of Operations* as “Transfers from Other Funds” or “Transfers to Other Funds”, and are accounted for as additions to or deductions from fund balance.

“Transfers to Other Funds” represents the sum of the statutorily required backfill of \$21,700,000 and the “Transfers from Other Funds.” Also, included in the “Transfers from Other Funds” is an additional \$12,117 from Fund 0942. Fund 0942, a special deposit fund, is used to collect fees from Commission sponsored conferences. The “Transfers from Other Funds” are calculated based on the applicable percentage of Fund 0623 revenues, which include cigarette taxes and SMIF interest income, and Fund 0942 conference fees. Fund 0942 conference fees are also allocated by the applicable percentages of Fund 0623 revenues.

The Health and Safety Code, section 130105 requires the backfill. Specifically, the Code provides that, “the State Board of Equalization shall determine within one year of the passage of this act the effect that additional taxes imposed on cigarettes and tobacco products by this act has on the consumption of cigarettes and tobacco products in this state. To the extent that a decrease in consumption is determined by the State Board of Equalization to be the direct result of additional taxes imposed by this act, the State Board of Equalization shall determine the fiscal effect the decrease in consumption has on the funding of any Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) State health-related education or research programs in effect as of November 1, 1998, and the Breast Cancer Fund programs that are funded by excise taxes on cigarettes and tobacco products. Funds shall be transferred from the California Children and Families Trust Fund to those affected programs as necessary to offset the revenue decrease directly resulting from the imposition of additional taxes by this act. Such reimbursements shall occur, and at such times, as determined necessary to further the intent of this subdivision.”

Backfill is calculated by the Board of Equalization’s Research and Statistics Unit every October, and presented to the Board for approval. The Board has approved those recommended amounts for the current year.

h. Retirement Plan

Employees of the Commission are members of the California Public Employees’ Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS’ investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the annual single audit of the State of California, and to the CalPERS Comprehensive Annual Financial Report.

i. Vacation and Sick Leave

Under the State's accounting guidelines, the costs of vacation and sick leave are not recorded at the time the benefits are earned, but rather when incurred. When leave is used, the personal services expenses account is charged. Under GAAP, the accumulation of employees' vacation and sick leave credits is accounted as a liability to be charged when the credits are used.

**NOTE 3      Budgeting and Budgetary Control**

The Funds are classified as *Other Governmental Cost Funds* for budgetary purposes. An *Other Governmental Cost Fund* is used to account for revenues from taxes, licenses, and fees where the use of such revenues is restricted by law for particular functions or activities of government. Program funds are continuously appropriated without regard to fiscal year.

Commission management is responsible for exercising budgetary control to ensure that appropriations are not overspent at the fund level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

**NOTE 4      Fund Balance**

The term *fund balance* is defined as the excess of the assets of a fund over its liabilities. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balance that are legally segregated for specific uses.

*Reserved for Encumbrances* represents goods and services that are ordered, but not received, by the end of the fiscal year.

*Reserved for Unencumbered Balances of Continuing Appropriations* represents the unencumbered balances of all appropriations for which the period of availability extends beyond the period covered by this report. These appropriations are legally segregated for a specific future use.